

Internal Revenue Service
memorandum

date: SEP 4 1991

to: Regional Technical Coordinator
Central Region

from: Assistant Chief Counsel (Financial Institutions & Products)

subject: Technical Coordination Report TCR 17,908 (91-110) -
TR 45-1155-91
Dated: May 29, 1991
Submitted by: Brian Crowe/Linda Wilson
District: Detroit
Recommending: Legislation or a change to the Procedure and
Administration Regulations concerning reporting requirements

In the TCR identified above, Mr. Crowe and Ms. Wilson recommend that either legislation be initiated or the regulations under section 6049 of the Internal Revenue Code be amended to require the filing of Form 1099 upon the sale of foreclosed real property when the redemptions involve individual mortgage holders.

As the TCR points out, redemptions involving foreclosures result in interest usually being paid to the buyer for the period between the sales date and the final redemption period. However, section 6049(b)(2)(A) of the Code excludes interest on any obligation issued by a natural person from the term "interest" for reporting purposes under section 6049. Consequently, if an individual is the purchaser of the foreclosed property, the interest paid to the purchaser during the redemption period would not be required to be reported on Form 1099 because the purchaser is a natural person. The TCR further states that the number of such instances in the Detroit District is not significant, and it is not known whether the lack of a reporting requirement is in fact causing a compliance problem. However, the information is being forwarded to the National Office in the event there may be significant compliance problems in other districts.

We are not aware at this time that the potential problem indicated above is of national significance. As indicated in the TCR, most redemptions involve foreclosures by banks, mortgage companies, and savings and loan associations, for which compliance does not appear to be a problem. Furthermore, we are not aware of any widespread compliance problem in that area, or of other districts reporting instances of individuals failing to report interest income received as a result of foreclosure redemptions.

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We would be interested in considering the issue at a later time if it is discovered that a compliance problem exists.

We appreciate Mr. Crowe's and Ms. Wilson's interest and hope they will continue to submit ideas. Copies of this memorandum are attached for the District Technical Coordinator, Mr. Crowe, Ms. Wilson, and other interested persons.

Attachments:

Copies of this memorandum (4)